



Malawi National Industry Policy

2014

Final Version

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Foreword

This document sets out the Government of Malawi’s policy for the industrialization of the economy. This policy is critical for Malawi’s economic development because the goals of Vision 2020 and the Malawi Growth and Development Strategy II cannot be achieved without industrialization. Poverty cannot be reduced if industries are not able to meet their potential and generate the jobs and value added that is required to meet the welfare needs of Malawi’s burgeoning population.

There is need for Malawi to adopt a new industrial policy that sets the country on a path of economic structural transformation and industrialization. This is also needed because Malawi is fast becoming an economic laggard in the region, with our neighbours registering faster long term economic growth than us.

A National Industrial Policy is therefore necessary to provide guidance in dealing with factors that determine the growth of the private sector, industry and the economy such as land availability, taxes, productive labour force, energy supply, availability of raw materials, transport cost, and education standards. If these factors are not consistent, coherent and collectively focused on industrial development, then the private sector will struggle to grow at the pace that is necessary to raise sufficient fiscal revenue, generate enough urban and rural jobs, and improve the incomes of Malawians.

The link to the Vision 2020 and MGDS II is clear. If Malawi does not implement this National Industrial Policy, the goals of Vision 2020 and MGDS II will not be achieved.

Hon. Joseph Mwanavemkha, (M.P.)
Minister for Industry and Trade

Preface

Malawi has failed to industrialize since the 1970s. This is increasingly recognised by Malawi stakeholders and development partners as a key impediment to Malawi's ability to reduce poverty and meet the goals of Vision 2020. With a new government in place, with a five year horizon, It is an opportune time to review and formulate a new National Industrial Policy (NIP) for the manufacturing sector.

Together with the National Export Strategy (NES) that the Ministry launched in 2012, this policy sets a new path for the development of Malawi's productive economy. The NES and NIP are complementary because Malawi's industrialization is inextricably linked to its ability to export. If Malawi does not access foreign as well as domestic markets, we cannot generate sufficient jobs, raise incomes of the poor and raise sufficient tax revenue to pay for the burgeoning population's welfare requirements. The NIP also addresses import substitution.

The policy is based on three key pillars. First, is the need to prioritise public and private sector resources and effort into supporting those clusters that can structurally transform the economy; i.e. that can deliver the scale of income, jobs and taxes necessary to match growing welfare needs. And also supporting those sectors key to import substitution and MSME participation in industry. Second is the importance of establishing a robust system to support continued up-skilling and upgrading of productive technology so that the economy's greatest asset – its people – have the competencies, skills and knowledge necessary to work with the technology needed to participate in a fast globalizing economy. Third is the need to address the governance constraint by strengthening the actual process of policy-making and implementation. Change is required of *de facto* policy (not merely policy documents) in areas that serve as binding constraints to the productive economy.

The NIP is aligned with Vision 2020 and the Malawi Growth and Development Strategy II and meets Malawi's requirements under the SADC Industrial Policy Framework.

The NIP builds on three years of extensive consultation with stakeholders through the consultations held for the NES, the Trade, Industry and PSD Sector Wide Approach Technical Working Groups, the Diagnostic Trade Integrated Study, the Situation Analysis for this policy document and numerous other consultation exercises.

Cliff Kenneth Chiunda
Secretary for Industry and Trade

Acronyms

EPZ	Export Processing Zone
ERP	Economic Recovery Plan
ESCOM	Electricity Supply Company
ESWAp	Education Sector Wide Approach
FSDU	Financial Sector Development Unit
GDP	Gross Domestic Product
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MBS	Malawi Bureau of Standards
MCC	Millennium Challenge Corporation
MGDS	Malawi Growth and Development Strategy
MIRTDC	Malawi Industrial Research, Technology and Development Centre
MITA	Malawi Industrial Training Association
MITC	Malawi Investment and Trade Centre
MoAFS	Ministry of Agriculture, Food and Security
MoEST	Ministry of Education, Science and Technology
MoEnergy	Ministry responsible for Energy
MoFED	Ministry of Finance and Economic Development
MoIT	Ministry of Industry and Trade
Molrrigation	Ministry responsible for Irrigation
MoLabour	Ministry responsible for Labour
MoLands	Ministry responsible for Land
MoTransport	Ministry responsible for Transport
MSME	Micro, Small and Medium Enterprises
NES	National Export Strategy
NGOs	Non-Governmental Organisations
OPC	Office of the President and Cabinet
OSP	Oil Seed Products
P&P	Plastics and Packaging
PIMED	Project Implementation Monitoring and Evaluation Division
PS	Principal Secretary
PSD	Private Sector Development
PSD DG	Private Sector Development Donor Group
R&D	Research and Development
RBM	Reserve Bank of Malawi
SADC	Southern African Development Community
SCP	Sugar Cane Products
SMEs	Small and Medium Enterprises
SWAp	Sector Wide Approaches
TCC	Tobacco Control Commission

TEVET	Technical, Vocational, Entrepreneurial Training
TEVETA	Technical, Vocational, Entrepreneurial Training Authority
TIP SWAp	Trade, Industry and Private Sector Development Sector Wide Approach
TWG	Technical Working Group
WB	World Bank

1 Introduction

1.1 Purpose of the Policy

The Government of Malawi recognizes that industrialization and the structural transformation of the economy are essential to maintain the rapid long-term economic growth that is needed to raise per capita income, create sufficient rural and urban jobs, widen the tax base to finance Malawi's welfare requirements and address an unsustainable trade deficit. The industrial sector in this context refers to the manufacturing sector of the economy. The National Industrial Policy therefore provides policy direction on how Malawi can develop its productive economy and industrialize.

The economy remains largely agricultural, with agriculture representing on average 33 per cent of GDP. The share of manufacturing in GDP has steadily declined from a peak of 20 per cent in 1992 to only around 11 per cent in 2011. The failure to structurally transform the economy and industrialise has added to the fundamental challenges facing Malawi. The narrow productive base has limited export growth and increased import dependence, contributing to a structural trade deficit that continues to widen and constrained GDP growth. The situation is worsened by the increasing population, which is growing by more than 3.2 per cent at present.

1.1 Statement of the problem

Key challenges for industrial growth and structural transformation are low levels of competitiveness, limited investment in physical and human capital, and small and fragmented markets.

Fundamental to the challenge of structural transformation is the limited growth and investment in clusters that have the greatest chance of generating learning, efficiency gains and positive spillovers, not just for the cluster but for the economy as a whole. The clusters that have been identified in the NIP as the export clusters are those of the NES. This dovetailing of the NIP and NES is critical for implementation. Furthermore, given small domestic markets, the focus of an industrial policy needs to be on sectors with export potential as they have highest probability of realizing the economies of scale needed for efficiency gains and long term competitiveness. The sectors are oil seeds and products produced from oil seeds, sugar cane and products produced from sugarcane and manufacturing, which includes agro-processing of other crops that grow well in Malawi (such as maize, wheat, rice, cassava, pigeon peas), beverages (including dairy), plastics & packaging and assembly. The Cluster Prioritisation Method used in the selection of these clusters involved an assessment of 1) the clusters competitiveness, 2) the potential for value addition, 3) the degree of spillovers in the economy that would reduce cost of future investment in new and high-value products 4) projections of local and regional demand for associated products 5) the existing resource and production base and 6) the developmental risks posed by each cluster.

The NIP has also identified sectors for import substitution, in line with the SADC industrial policy. These include wood and wood products, leather and leather products and pharmaceuticals.

1.2 Key constraints

Key constraints underlying the challenges facing the growth and structural transformation of the industrial sector are:

- 1) Lack of appropriate skills and uptake of technology;
- 2) High costs of doing business and deficient support infrastructure;
- 3) Market access to export markets;
- 4) Barriers to MSME participation in manufacturing;
- 5) Incentive to invest, in particular in strategic sectors;
- 6) Governance challenges with regards to policy-making and implementation

There is also the challenge of the environmental and social sustainability of industrialization.

Fundamental constraints that affect the development of the industrial economy, such as macroeconomic stability, are key risks but beyond the scope of an industrial policy.

1.3 Linkages to other relevant policies

The NIP is aligned with Vision 2020 in terms of its focus on sustainable comparative and competitive advantage and with the MGDS II with its export cluster focus. The Industrial Policy supports the Malawi National Export Strategy 2013-2018, which identified target product clusters that have a high potential to generate significant spillovers and structurally transform the economy. The Malawi industrial policy is also in line with the SADC Industrial Policy Framework, which calls for the prioritisation of growth clusters identified in SADC policy Framework. The policy targets sectors that inherently have significant knowledge and cost discovery spillovers in the economy.

The policy is also linked to activities supporting the private sector and MSME's including business linkages, private sector development policy and the Small and Medium Enterprise Development Authority.

2 Broad Policy Directions

2.1 Policy Vision

The policy vision is a competitive, structurally transformed industrial sector, generating livelihoods that are environmentally and socially sustainable. The sector will be inclusive of MSMEs and contribute to reducing the trade deficit.

2.2 Policy Goal

The policy goal is an altered GDP growth path resulting from ensuring the industrialization and structural transformation of the Malawian economy by coordinated policy efforts to address key constraints and increase the productive capacity of industry. The focus is on manufacturing.

2.3 Policy Outcome

- Increased productivity of the industrial sector
- Increased diversification of Industrial products
- Improved value added to the primary products
- Reduced trade deficit by promoting exports and import substitution
- Altered Malawi's GDP path (structural transformation).

2.4 Policy Objectives

The objectives of the Industrial Policy are:

- Enhance the provision of appropriate skills and technology;
- Improved business environment for the manufacturing sector;
- Improved access to key business services;
- To promote support infrastructure (enablers);
- Facilitate participation of MSME in manufacturing and market linkages;
- Address the environmental and social sustainability of industrialization;
- Address the governance challenge in terms of policy formulation and implementation.

3 Priority Areas

3.1 Appropriate skills and technology

3.1.1 Introduction

Upskilling the labour force is essential to industrialization and will ensure that the economy has an adequate supply of skilled workers to meet the demands of its industrial and non-traditional sectors. This requires improved access to and utilization of technology. Furthermore, Government recognizes the role played by technology development through research and the upgrading of production technology.

3.1.2 Mismatch of supply with private sector demand for skills

i) Information gap

There is a lack of information of the forward-looking needs of the private sector relative to current supply of skills.

ii) Co-ordination mechanisms

There is only limited co-ordination and collaboration between manufacturing (and supply sectors) government authorities and (public and private) training institutions on curricula development and approach to training.

iii) Under-investment in skills by the private sector

The incentive for a company to invest in the training of staff is limited by “poaching”.

iv) Restrictions on access to foreign skills

Given the nature of modern industry there will always be a need for specialized skills and human resources that cannot efficiently be developed locally. Current restrictions on permits and cross border provision of services are limiting access to these skills.

Policy Statements

Government shall

- Improve the productivity and skills base of the labour force
- Provide a framework to incentivize employers to train employees
- Improve access to technology by manufacturing companies and MSMEs.

- Develop and implement a National Competencies and Skills Plan in order to address the disconnect between the demand and supply of skills in Malawi
- Improve secondary education and TEVET, as this lays the foundations for having a skilled and productive workforce

3.1.3 **Appropriate technology**

- i) **Low investment in improved technology**
Investment by companies in technological upgrading is limited by the fact that they will not realize the full benefits in terms of a competitive edge. This is because the development of many production techniques is soon adopted by the entire industry not only the company investing in developing new techniques.
- ii) **Limited diffusion of technology**
Diffusion of technology in Malawi is constrained by a range of factors, including awareness and understanding and access to finance.
- iii) **Low levels of high quality FDI**
The unstable economic environment and high costs of investing in Malawi limit high quality FDI that brings with it technology and transfers knowledge through learning by doing.

Policy Statements

Government shall

- Build capacity for industrial technology research institutions
- Develop a framework that incentivizes research and development, in part through anchor firm model and in co-ordination with private sector and MSME support programmes.
- Ensure tax policy incentivizes investment in key clusters and enabling sectors.
- Extension services to target access to technology.

3.2 An improved business environment for the manufacturing sector

3.2.1 Introduction

Malawi has a very challenging business environment. It is ranked low by the World Bank Doing Business Indicators. Businesses face difficulties in a number of areas.

3.2.2 Trade related

i) Access to imported inputs

Raw materials and intermediate imported inputs to the manufacturing sectors often attract higher tariffs relative to consumption goods.

ii) Access to export markets

While Malawi faces few tariff barriers in key markets, non-tariff barriers are a challenge for exporters.

iii) Access to cross border markets

The barriers to small-scale producers trading into regional markets can be prohibitively high given the relatively low value of goods traded.

Policy Statements

Government shall

- Rationalize tariffs to reduce the imported input costs of priority clusters and sectors
- Ensure that the manufacturing sector have access to markets by addressing access to markets-related issues;
- Support the free movement of the produce of MSMEs through trade facilitation measures such as the Simplified Trade Regime.

3.2.3 Land and factory sites

i) Access to land and factory sites

Land is a major constraint to growth of industrial sector in Malawi because it takes a long period of time for an investor to be allocated land for factory construction. This is a disincentive that has pushed away a number of potential investors.

Policy Statements

Government Shall

- Streamline procedures for land allocation to potential investors for construction of factories
- Promote development of industrial parks, EPZs and Special Economic Zones in the designated areas
- Fast-track the enactment and operationalization of the amendments to land legislation, including automated Lands Registry, and Land Information Management System Project

- Allocate significant investment to capacity building in land administration, especially in Department of Lands, Physical Planning and Surveys and the Land Registry

3.2.4 Taxation

i) Tax and investment incentives

As a result of fiscal pressures and funding conditionalities, the short term needs of revenue collection have dominated. Efficiency and the broadening of the tax base by using incentives to generate economic activity have been secondary concerns. Many of the manufacturing industries have complained about the numerous taxes imposed by government.

Policy Statement

Government Shall

- Review the tax regime to meet industrial needs.
- Balance revenue collection through taxes with development of the Industrial sector
- Widen the tax revenue base to relieve pressure on few industries paying taxes
- Monitor implementation of the Industrial Rebate Scheme to avoid misuse of the facility

3.3 Improved access to key business services

3.3.1 Introduction

Services are key to the productive economy and provide inputs into other economic activities. The Government acknowledges that the shortage of competitively priced services impedes the development of strong manufacturing sectors. To facilitate access to these services, there is a need to strategically reduce domestic barriers to entry, to improve the regulatory frameworks governing services and further support the growth of the services sector.

3.3.2 Business Development Services

Problems issues

i) Trade barriers to foreign services

Cross border services provision is restricted by a range of issues, including visa requirements and the lack of mutual recognition agreements for professionals. The extent of the challenges is as yet unclear.

- ii) Narrow base of domestic service providers
In part reflecting a skills deficit, in part reflecting limited effective demand from MSMEs.

Policy Statement

Government Shall

- Reduce barriers to entry for key business services through domestic policy reform and trade negotiations.
- Encourage the provision of affordable business development services.

3.3.3 Access to credit facilities and capital investment

Interest rate margins in Malawi—the difference between the lending and deposit rates—are some of the highest in the world at over 20 per cent. And private sector credit to GDP is very low..

Problem issues:

- i) Lack of competition in the financial sector.
Though there are a relatively large number of banks, market concentration is high. Financial inclusion indicators remain low and there is little financial sector innovation.
- ii) Information asymmetry
Banks have little knowledge on their clients that increases risk and drives up the interest rate spread.

Policy Statements

The Government Shall:

- Increase competition through an active Foreign Direct Investment promotion policy in the financial sector
- The application of competition policy
- Increase competition and innovation through
 - The launch a financial sustainable and commercial development financial institution
 - Further support to an effective Warehouse Receipts Regulatory Framework that ensures warehouse receipts improve access to finance and market linkages for smallholder farmers

- Prioritize information systems to lower monitoring costs for firms and help to expand access to finance at affordable rates
- Ensure Credit Reference Bureaus function effectively through developing consistent laws
- Encourage the development of leasing finance in Malawi

3.4 To promote Support Infrastructure (Enablers).

The infrastructure deficit is a significant constraint for business - surveys of the private sector undertaken by the World Economic Forum suggest it is the third most important constraint to doing business. Looking at the Global Competitiveness Index, Malawi's overall infrastructure ranking is 118 out of 144 countries.

Key constraints to growth and competitiveness include Malawi's quality of port and airport infrastructure, the country's deficient electricity supply, low mobile telephone subscriptions and limited fixed telephone lines. Quality infrastructure is also a challenge.

3.4.1 Transport Operations and infrastructure

Government is aware that transport costs in Malawi are very high compared to other countries in the region, representing over 50 per cent of the value of exports. Domestic transport costs are the most prohibitive

Problem issues

i) A lack of competition

There is a lack of competition in the road haulage sector, with the Road Transporters Operators Association acting as a cartel in the sector. This is compounded by a lack of inter-modal competition for transport because of the poor quality of the rail system.

ii) Inadequate maintenance

Railway operations have been hampered by inadequate maintenance both domestically and in Mozambique. However, currently there is a new company that is developing the line from one side of Mozambique to the other side across. The waterways are not efficient due to frequent breakdowns by the old fleet of vessels. The lack of maintenance is also risk factor to human lives.

iii) Limited air services

Air services are quite thin after the closure of Air Malawi. The new company is not yet well established to present serious competition to other modes of transport.

Policy Statements

Government Shall

- Increase investment in road transport operations
- Promote competition among transport modes to reduce costs.
- Encourage utilization of Nacala railway to transport imports and exports
- Permanently apply fifth freedom for air transport
- Develop water transport including Shire Zambezi waterway
- Procure modern vessels to operate on the lake as well as Shire-Zambezi waterway
- Gradually remove restrictions on foreign truckers operating within Malawi, using a time-bound approach that sets clear targets for identifying selected internal routes for cabotage.

3.4.2 Electricity Power supply

Although energy prices in Malawi are relatively low compared with other African countries, supply is generally limited and inconsistent. In order to achieve its growth potential, Malawi needs more and better access to energy to sustain industrial development.

Problem issues:

- i) Limited incentive to invest in energy provision
Private investment in Malawi's energy sector is low because private firms cannot compete at current subsidized electricity tariffs. Similarly ESCOM has limited incentive to invest in energy infrastructure and improved service.
- ii) Limited connectivity to regional power supply
While the entire region is energy constrained, limited connectivity to the regional power grid means even the limited opportunities to share power cannot be realized.

Policy Statements

Government shall

- Incentivize the private investment and partnership in energy generation and distribution to meet the growing demand by the industrial sector
- Ensure an effective regulatory framework to encourage independent power providers
- Pursue initiatives to import electricity from the region to meet local demand

3.4.3 Quality infrastructure

For the private sector, the challenges of meeting the product standards set for destination markets is as important an issue as tariff barriers. With value addition, the demands on

Malawi's quality infrastructure is set to grow as the product base diversifies and testing becomes more complex.

Problem issue:

i) The need for enhanced Quality Infrastructure and Extension Services

The capacity of the Quality Infrastructure and Extension Services in Malawi to offer a range of services at competitive prices is restricted as a result of high costs and limited public funds for investment.

Policy Statements

Government shall

- Build the capacity of Quality Infrastructure in Malawi
- Ensure linkages between QI development and the needs of the priority clusters
- Enhance the transparency and functionality of the Malawi Bureau of Standards.

3.5 Facilitate participation of MSME in manufacturing

3.5.1 Introduction

Micro and small-scale economic activities support most of the population and generate nearly two-thirds of overall business turnover. Over 80% of those employed in the sector worked for micro enterprises (those with 1-4 employees). [SEP] Only a very small proportion of Malawians work in the formal economy. According to the Welfare Monitoring Survey of 2008, about 2.5% of the labour force works for private businesses and 1.1% works on estates, [SEP]

According to the MSME Policy Strategy of 2012, the majority of MSMEs are engaged in trading and retail. Malawi's small manufacturing sector is in decline, with low capacity utilisation and falling investment. [SEP]

3.5.2 Problem issues

i) Meeting market requirements

Products of MSMEs are generally of low quality and there is little knowledge of quality and standards requirements.

ii) Access to finance and informality

Access to finance is a far more severe problem for MSMEs than large companies. Financial exclusion is in part a result of enterprises being informal. This informality is

in turn driven by a number of factors, including red tape and regulatory costs to formalization.

iii) Limited awareness of support available support

According to the MSME 2012 enterprise survey, the majority of enterprises are not aware of the institutional support available.

Policy Statement

Government Shall

- Target industrial extension, coordinated and facilitated by MIRTDC, on facilitating MSME manufacturing access to technology for priority clusters
- Ensure effective coordination of MSME support to facilitate MSME upskilling
- Facilitate business linkages for market entry and technology transfer
- Facilitate and ensure ease of meeting tax and regulatory obligations
- Raise awareness of support available.

3.6 Social and environmental sustainability of industrialization

Government recognizes that as industrialization progresses, the environment can be degraded and labour relations can become strained.

3.6.1 Labour relations

The requirements of a globalizing market and the pressures of competition can put downward pressure on the conditions and terms for the workforce. Poor communication in the workplace can contribute significantly to labour unrest.

Policy Statement

Government Shall

- Promote harmonious labour relations in all the workplaces
- Maintain operations of the industrial courts

3.6.2 Environmental sustainability

Recently, there has been an increase in industrial waste products dumped into rivers and public places. This poses danger to human lives. This is also contributing to environmental degradation especially in cities and urban areas. Better use of waste material needs to be encouraged.

Policy Statement

Government Shall

- Enforce strict measures to curb disposal of industrial waste
- Promote recycling of the industrial by products
- Encourage production and use of biodegradable packaging materials
- Promote appropriate waste management interventions countrywide

3.7 Cluster and sector specific support

3.7.1 Introduction

The approach of the Industrial Policy is to focus support on identified export clusters and selected import substitution sectors. In practical terms, this means that the implementation of the policy activities set out above will be focused on the selected clusters and sectors.

3.7.2 Priority sectors

The sectors are oil seeds and products produced from oil seeds, sugar cane and products produced from sugarcane and manufacturing, which includes agro-processing of other crops that grow well in Malawi (such as maize, wheat, rice, cassava, pigeon peas), beverages (including dairy), plastics & packaging and assembly. The Cluster Prioritisation Method used in the selection of these clusters involved an assessment of 1) the clusters competitiveness, 2) the potential for value addition, 3) the degree of spillovers in the economy that would reduce cost of future investment in new and high-value products 4) projections of local and regional demand for associated products 5) the existing resource and production base and 6) the developmental risks posed by each cluster.

The NIP has also identified sectors for import substitution, in line with the SADC industrial policy. These include wood and wood products, leather and leather products and pharmaceuticals.

However, there are policy measures relevant to a specific cluster or sector. These are set out here.

3.7.3 Export clusters

3.7.3.1 Policy Statements for Plastics and Packaging

The Government Shall

- Commit to halting unnecessary bans on plastics for at least 3-5 years;
- Review excise tax on plastic products;
- Facilitate dialogue and collaboration between P&P cluster and MITA/TEVETA and other training institutions to improve focus of vocational training institutions for the needs of the cluster;
- Facilitate collaboration between MITC/MoIT, MBS, and cluster stakeholders to strengthen links with potential export destinations and ensure appropriate standards are developed;
- Establish P&P Task Force within the Manufacturing TWG and ensure continued support so that this serves as the P&P industry forum.
- Facilitate production of quality packaging in manufactured products such as tea

3.7.3.2 Policy Statements for Agro-processing of non-oil seed and non-sugar cane products

The Government Shall

- Facilitate operations and effectiveness of Agro-Processing Task Force within the Manufacturing TWG through adequate resourcing.
- Establish specific value chain industry platforms if necessary, such as dairy, wheat, cassava etc. For rice, ensure sustainability & effectiveness of National Rice Development Platform.
- Facilitate establishment of cigarette manufacturing factories
- Encourage industrial linkages especially between SMEs and large industries

3.7.3.3 Policy Statements for Beverages

The Government Shall

- Facilitate establishment of and ensure continued operations and effectiveness of Beverages Task Force within the Manufacturing TWG, as the industry forum for this sub-cluster, through adequate resourcing.

3.7.3.4 Policy Statements for Assembly

The Government Shall

- Facilitate establishment of and ensure continued operations and effectiveness of Assembly Task Force within the Manufacturing TWG through adequate resourcing

3.7.3.5 Policy Statements for Oilseed Product Cluster

The Government Shall

- Facilitate the establishment of and operationalization of support institutions for the Oil Seed Products sector;
- Facilitate and ensure that the sector has access to information by addressing the farmer-processor disconnect;
- Facilitate the provision of affordable access to finance and secure tenure of property
- Fully enable and ensure ongoing support to the Oil Seed Products TWG to act as industry forum for collaboration amongst stakeholders and basis for structured market, together with Cotton Council and Legume Development Trust.

3.7.3.6 Policy Statements for Sugar Cane Product Cluster

The Government Shall

- Facilitate the establishment of and operationalization of support institutions for the Sugarcane Products sector;
- Facilitate and ensure that the sector has access to information by addressing the farmer-processor disconnect;
- Fully enable and ensure continued support to Sugar Cane Products TWG to act as industry forum for collaboration amongst stakeholders;

3.7.4 Import substitution sectors

3.7.4.1 Policy statement for wood and wood products

Government Shall

- Encourage the procurement of locally manufactured furniture for all government Departments and institutions;
- Enforce standards in the sector in order to ensure quality and competitiveness of the products;
- Promote the utilization of wood waste for production of cheap boards.
- Reduce import duties on alternative materials used in furniture manufacturing;
- Promote and facilitate the importation of machinery used in the wood processing industries;
- Encourage local and foreign investments in the wood processing industries;

3.7.4.2 Policy statements for leather and leather products

The Government Shall

- Establish a Leather Development Institute in the country
- Provide support and training for the indigenous leather industries to develop technical capacity in processing of leather products;
- Encourage experience sharing and collaboration between local and foreign leather industries with the aim of strengthening local industries

3.7.4.3 Policy statements for pharmaceutical sector

The Government Shall

- Promote the procurement of locally manufactured pharmaceutical products (Buy Malawi Campaign)
- Prohibit the importation of counterfeit pharmaceutical products in the country
- Promote the use of local raw materials in the manufacture of pharmaceutical products
- Ensure that local pharmaceutical companies meet national and regional standards for the production pharmaceutical products;
- Encourage investment in local pharmaceutical industries research and innovation initiatives;
- Encourage the development and delivery of pharmaceutical courses at institutions of higher learning.

4 Implementation Arrangements

4.1 Institutional arrangements

Creating and embedding a process for continually identifying and addressing constraints to industrial growth through coordinated policy efforts is a core factor necessary in achieving industrial development in Malawi. In identifying and agreeing on the binding constraints, and hence on prioritisation, there must be close collaboration and productive working relationships between players in touch with said constraints and with the decision makers in State House, the Office of the President and the Ministry of Finance, whose political and financial support is essential. Transparency and accountability in these processes are crucial to develop trust and support on all sides.

Industry Forums are needed for strategic partners and champions of the productive economy to emerge and to then work with decision makers and resource holders to identify and address binding constraints. Such forums should:

- Allow for champions and leaders (mentors) to emerge;
- Allow for genuine partners to government to emerge (strategic team);
- Ensure competition policy is applied;
- Not be one-size-fits all: the scope and size of forums will vary by sector and cluster;
- Prioritize the identified clusters and sectors and key enabling sectors;
- Form strategic teams and growth coalitions to drive implementation, monitor progress and evaluate impact.
- Link to OPC (with the project implementation and monitoring and evaluation department or a body that plays the M&E function in opc) for joint monitoring of the implementation of policy statements (activities) and joint evaluations how those activities should change over time so the binding constraints to industrialisation are addressed, a process of learning is secured, a robust process of policy making is established and the priority clusters for structural transformation are developed.

The TIP SWAp provides the best structure for such forums. It currently runs six forums and supports others, including the Cotton Council. The six it runs are called Technical Working Groups (TWGs) that are focused on binding constraints and have formal links to political and business elites (decision makers).

TWGs and their dedicated task forces can help identify and address binding constraints through structured private sector dialogue. For example, we conducted an in-depth cluster analysis of the plastics and packaging manufacturing sector, for which one of the binding constraints was the lack of a platform for cluster issues to be discussed and then lobbied with Government. The TIP SWAp should establish a plastics and packaging task force to serve as such a platform, and

to provide an institutionalized channel for cluster issues to be raised with central government and relevant policy makers.

The advantage of the TIP SWAp is that it is the most representative of forums and the most focused, as it is based on the NES, which is a technically sound and robust strategy for developing Malawi's productive economy.

The current weaknesses of the TIP SWAp in terms of its ability to act as a robust link between private sector and Government is the poor collaboration and limited advocacy or lobbying capacity with the Presidency, State House, OPC, Ministry of Finance and Economic Development. An essential first step is establishing a very strong link with these institution. The TIP SWAp will be recognized at the highest levels of Government as a key tool for public-private collaboration. This will ensure that the TWGs have a direct link with key decision-makers that can implement the policy needed for industrialization.

Tools like the TIP SWAp are important for communicating to donors the implications of their behaviour on the productive economy.

4.2 Implementation Plan

Policy	Priority Level (6 is highest, 1 is lowest)	Responsibility	Start Date	Completion Date
The Policy Making Process				
Industry Forums				
<i>Create direct, formal link between TIP SWAp and OPC/PIMED</i>	6	MoIT	2015	On going
<i>Ensure Office of the President and Cabinet and Ministry of Finance, Economic Planning and Development has a robust system of policy coordination, monitoring and evaluation, centered on efforts to develop the productive economy, and using the SWApS as the key guiding tool.</i>	6	President of Malawi	2015	On going
<i>Ensure sustainability of existing industrial forums in their infancy; such as Cotton Council, Oil Seed Products TWG, Sugar Cane Products TWG and Manufacturing TWG.</i>	5	MoIT	2015	On going
<i>Establish and ensure sustainability of sub-cluster industrial forums for plastics and packaging, dairy, beverages, other agro-processing and assembly.</i>	5	MoIT	2015	On going
<i>Where priority clusters do not have public-private dialogue and collaboration platform, facilitate establishment of industry forums/platforms.</i>	5	MoIT	2015	On going
Policy Priority 1. Appropriate skills and technology				
Skills				
<i>Establish Industrial Liaison Body (or Productivity Centre) to link demand and supply of skills, including vocational training linkages between MITA, TEVETA, private providers and key product clusters</i>	5	MoLabour	2015	2017
<i>Ensure effective and efficient labour market information system is in place</i>	6	MoLabour	2016	On going
<i>Directly linking technical schools and TEVET to the private sector in priority export clusters and ISI sectors and enabler sectors (including energy and transport infrastructure);</i>	5	MoLabour	2015	2016
<i>Increase collaboration with the Malawi Industrial Training Association and similar private sector groupings to foster private sector input in curriculum development;</i>	5	MoLabour	2015	On going
<i>Ensure effective coordination of MSME support by SMEDI to facilitate MSME upskilling nationwide</i>	4	SMEDI	2017	On going
<i>Scale up and improve focus of apprenticeship programmes: link secondary, TEVET and higher education institutions to private sector companies. Use private sector funding;</i>	5	MoLabour with MoEST	2015	2018
<i>Reform immigration business permits to match them with Malawi's skills and investment</i>	5	MoHome	2016	On going

<i>gaps;</i>		Affairs		
<i>Develop supporting labour market policies, designed to improve the link between demand and supply of skills;</i>	4	MoLabour	2016	On going
Technology				
<i>Facilitate and promote foreign and domestic direct investment promotion, led by the MITC.</i>	5	MITC	2016	On going
<i>Ensure tax policy incentivizes investment in improved technology in all productive and enabling sectors;</i>	4	MoFED	2016	On going
<i>Develop market structures that incentivize R&D, both domestic and imported, using Industrial Liaison Body to coordinate</i>	3	MoIT	2015	2018
<i>Target industrial extension, coordinated and facilitated by MIRTDC, on facilitating MSME manufacturing access to technology for priority clusters</i>	4	MIRTDC	2015	On going
<i>Establish Agro-Processing (including beverages and plastics and packaging) Special Economic Zone and Assembly Special Economic Zones; backed by the promotion of anchor farms.</i>	5	OPC	2015	2019
Policy priority 2: An improved business environment for the manufacturing sector				
Trade Related				
<i>Rationalize the tariff structure to better reflect the needs of manufacturing for imported inputs</i>	4	MoIT	2015	
<i>Improve market access (tariff and non tariff) using bilateral, regional and multilateral trade agreements – negotiations and implementation. Restrict use of export bans.</i>	5	MoIT	2015	
<i>Implement the Simplified Trade Regime in COMESA and enhance domestic business linkages.</i>	3	MoIT	2015	
Land and factory sites				
<i>Immediate enactment of existing package of land bills</i>	6	OPC with MoLands	2015	2015
<i>Fast-track the enactment and operationalisation of the amendments to land legislation, including automated Lands Registry, and Land Information Management System Project</i>	6	MoFED with MoLANDS	2015	2017
Taxation and incentives				
<i>Through OPC, supported by TIP SWAp, undertake comprehensive tax and investment policy review. Tax incentives will target priority sectors.</i>	4	OPC	2015	2017
<i>Develop a Special Economic Zones Act via a review or amendment of EPZ Act.</i>	4	MoIT	2015	2016
<i>Amend Investment Policy to reflect ERP, NES, and Industrial Policy (co-ordinate with commercialization of agriculture).</i>	3	MoIT	2015	2016
<i>Ensure investment policy adequately balances environmental sustainability with</i>	3	MoIT	2015	2016

<i>requirements to create jobs, spillovers and economic empowerment of Malawians, both female and male.</i>				
<i>Develop and enact an Incentives Act that is based on outcome of tax and investment policy review.</i>	4	MoIT	2015	2016
Priority area 3. Improved access to key business services				
Business Development and Professional Services				
<i>Link extension services to priority clusters and prioritise farmer organization and agricultural technology dissemination</i>	5	MoAFS	2016	On going
<i>Strong link between MSME Strategy, SMEDI and Industrial Policy</i>	5	MoIT	2015	2016
<i>Reduce barriers to entry for key business services through domestic policy reform and trade negotiations.</i>	4	MoIT	2015	On going
Access to credit facilities and capital investment				
<i>Increase competition through an active Foreign Direct Investment promotion policy in order to enhance efficiency in the financial sector.</i>	6	OPC, MITC	2016	2019
<i>Apply and enforce Competition and Fair Trading Act to the financial sector to ensure no abuse of oligopolistic market structure by existing players</i>	6	CFTC	2016	On going
<i>Launch a financially sustainable and commercial development financial institution</i>	6	MoFED and RBM	2015	2016
<i>Develop and implement an effective Warehouse Receipts Regulatory Framework that ensures warehouse receipts improve access finance and market linkages</i>	5	MoIT	2015	2016
<i>Prioritise information systems to lower monitoring costs for firms and help to expand access to finance at affordable rates</i>	5	MoIT with MoFED	2015	2019
<i>Ensure Credit Reference Bureaus function effectively through consistent laws</i>	4	MoFED	2015	On going
<i>Encourage the development of leasing finance in Malawi</i>	4	MoFED	2015	On going
Priority Area 4. Promote Support Infrastructure (Enablers)				
Transport Operations and infrastructure				
<i>Increase competition in the road haulage sector to decrease domestic transport costs. Fully apply Competition and Fair Trading Act to freight transporter associations in Malawi</i>	6	OPC with CFTC and MoTransport	2016	2016
<i>Gradually remove restrictions on foreign truckers operating within Malawi, using a time-bound approach that sets clear targets for identifying selected internal routes for cabotage</i>	5	OPC with MoTransport	2016	2020
<i>Prioritise railway transportation, by allowing for private investment and operations; an appropriate regulatory body separate from the Ministry of Transport; and promoting public-private partnerships</i>	6	OPC, MoFED and MoTransport	2015	2030

Electric Power Supply				
<i>Increase availability and reliability of power in Malawi by gradually increase capacity for importing energy from regional partners through inter-connectors with Mozambique, Zambia and Tanzania</i>	5	OPC with MoEnergy	2015	2019
<i>Ensure an effective regulatory framework to encourage independent power providers</i>	4	MoEnergy with MCC	2015	2016
Quality Infrastructure				
<i>National Quality Policy to be fully implemented and expedited.</i>	5	MoIT	2015	2018
<i>MBS split into two parts: regulator (facilitator) and enforcer.</i>	5	MoIT	2016	2018
<i>Standard test results from internationally accredited regional partners, certification bodies and private testing companies (such as SANAS or SADCAS), will be accepted in Malawi and the requirement for any mandatory testing by MBS on any export will be abolished.</i>	4	MBS	2015	2018
<i>Build the capacity of the MBS and accredited laboratories under the Technical Service Department. Ensure transparency at MBS through publicising fees, procedures, waiting times and by allowing appeals</i>	4	MoIT	2015	2018
Priority Area 6. Facilitate participation of MSME in manufacturing				
<i>Raise awareness of support available for MSMEs</i>	5	SMEDI	2015	On going
<i>Fully implement the National Registration and Identification System</i>	5	OPC	2015	2018
<i>Strong link between MSME Strategy, SMEDI and Industrial Policy</i>	5	MoIT	2015	2016
<i>Target industrial extension, coordinated and facilitated by MIRTDC, on facilitating MSME manufacturing access to technology for priority clusters</i>	4	MIRTDC	2015	On going
<i>Incentivise informal businesses to register through lowering cost of formalisation, favourable taxation & ease of access to finance & BDS</i>	4	MoIT and MOFED	2015	2018
Priority Area 7. Social and environmental sustainability of industrialization				
Labour relations				
<i>Promote harmonious labour relations in all the workplaces</i>				
<i>Maintain operations of the industrial courts</i>				
Environmental Sustainability				
<i>Enforce strict measures to curb disposal of industrial waste</i>				
<i>Promote recycling of the industrial by products</i>				
<i>Encourage production and use of biodegradable packaging materials</i>				
<i>Promote appropriate waste management interventions countrywide</i>				
Policy Priority Area 8: Sector specific support				

Export Clusters				
<i>Cross cutting support will be targeted to the priority sectors</i>				
Oil Seed Products				
<i>Fully implement NES Oil Seed Products Strategy, as outlined in the NES</i>	5	OPC and Oil Seed Products TWG	2015	2018
<i>Fully enable and ensure ongoing support to the Oil Seed Products TWG to act as industry forum for collaboration amongst stakeholders and basis for structured market, together with Cotton Council and Legume Development Trust</i>	6	MoIT	2015	On going
Plastics and Packaging				
<i>Commit to halting bans on plastics for at least 5 years while Government determines appropriate measures to address environmental concerns – and implement these measures with sufficient notice such that the private sector can plan accordingly;</i>	4	Ministry of Environment	2015	2018
<i>Remove 10 per cent excise tax on plastic products;</i>	4	MoFED	2016	2016
<i>Facilitate collaboration between MITC/MoIT, MBS, and cluster stakeholders to strengthen links with potential export destinations and ensure appropriate standards are developed;</i>	4	MoIT	2015	On going
<i>Establish P&P Task Force within the Manufacturing TWG and ensure continued support so that this serves as the P&P industry forum.</i>	5	MoIT	2014	On going
Agro-Processing				
<i>Fully implement National Export Strategy's sub-strategy for developing Agro-processing cluster, as outlined under the Manufacturing Strategy in the NES;</i>	5	OPC and Manufacturing TWG	2014	2018
<i>Establish an economically sustainable Agro-Processing Special Economic Zone close to Nacala Railway</i>	5	OPC with MoLand and MoIT	2014	2018
<i>Facilitate establishment of and ensure continued operations and effectiveness of Agro-Processing Task Force within the Manufacturing TWG through adequate resourcing. Establish specific value chain industry platforms if necessary, such as dairy, wheat, cassava etc.</i>	6	MoIT	2014	On going
<i>For rice, ensure sustainability & effectiveness of National Rice Development Platform.</i>	5	NRDP	2014	On going
Beverages				
<i>Fully implement National Export Strategy's sub-strategy for developing beverages cluster, as outlined under the Manufacturing Strategy in the NES;</i>	5	OPC and Manufacturing TWG	2014	2018

<i>Facilitate establishment of and ensure continued operations and effectiveness of Beverages Task Force within the Manufacturing TWG, as the industry forum for this sub-cluster, through adequate resourcing.</i>	5	MoIT	2014	On going
Assembly				
<i>Fully implement NES's Manufacturing Sub-Strategy for developing Assembly cluster, as outlined under the Manufacturing Strategy of the NES;</i>	5	OPC and Manufacturing TWG	2014	2018
<i>Facilitate establishment of and ensure continued operations and effectiveness of Assembly Task Force within the Manufacturing TWG through adequate resourcing.</i>	6	MoIT	2014	On going
Import Substitution Sectors				
Wood and wood products				
<i>Encourage the procurement of locally manufactured furniture for all government departments and institutions</i>				
<i>Promote the utilization of wood waste for production of cheap boards.</i>				
Leather and leather products				
<i>Establish a Leather Development Institute in the country</i>				
<i>Encourage experience sharing and collaboration between local and foreign leather industries with the aim of strengthening local industries</i>				
Pharmaceutical sector				
<i>Promote the procurement of locally manufactured pharmaceutical products (Buy Malawi Campaign)</i>				
<i>Prohibit the importation of counterfeit pharmaceutical products in the country</i>				
<i>Promote the use of local raw materials in the manufacture of pharmaceutical products</i>				

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